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Colombia

Dairy and Products

Annual

2004

Approved by:

David J. Mergen
U.S Embassy

Prepared by:

Leonardo Pinzon

Report Highlights:

Colombian government extended the ban on milk powder imports until December 2004. Milk powder production is expected to increase to 95,000 tons in 2004, while exports will remain at 25,000 tons. Colombia is negotiating a free trade agreement with U.S. with the goal of concluding the negotiations in January 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bogota [CO1]
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Executive Summary

Imports of milk powder were virtually eliminated in 2003 and 2004 due to the import ban imposed in November 2002. The Colombian Government has extended the ban until December 2004.

Colombian powder milk exports increased two percent to 25,424 tons in 2003, and Venezuela was once again the main market for Colombia dairy exports with a 99 percent share.

The industry has increased the use of plant capacity to between 70 and 75 percent in response to the milk powder import ban.

Consumption of milk in Colombia still remains low, at 135 liters per person, despite some limited government support for school lunch programs and food aid programs.

Colombia is currently negotiating a free trade agreement with U.S., along with Ecuador and Peru, with the goal of concluding the negotiations in January 2005.

Production

The powdered milk industry has maintained its current plant capacity, which is calculated at 2.8 million liters per day. The capacity utilized is estimated at 75 percent, which represents 13 percent of the fluid milk production. Total fluid milk production is calculated at 6.04 billion liters for the year 2004.

Milk powder production is estimated to rise 9 percent to 95,000 tons in 2004. The increase in production is due mainly to the higher utilization capacity. This has increased from 65 to 75 percent primarily driven by the increases in demand rather than increases in fluid milk production. Milk fluid production is expected to rise by two percent in 2004.

Small dairy producers are organized into cooperatives, which receive subsidized credit from the Ministry of Agriculture, through FINAGRO, its financial institution. Cooperatives only repay 60% of the credit received as part of the government incentives program. These cooperatives are developing programs to improve the whole processing chain from providing tanks for milk storage at the farm level to transportation and processing improvements.

Financial support is also given through FINAGRO to re-stock double purpose cattle herds and milk cows. The percentage of credit devoted to these activities grew 56 percent in 2003, and represented 94 percent of the total credit given for animal purchases, which amounted to \$105 million.

Production Factors

Fluid milk production peaks during June-July and again in December-January, when pastures enjoy optimal conditions due to high rainfall levels. During these periods of oversupply, surpluses are converted into powdered milk.

The Colombian Government has been promoting sectoral agreements as an instrument for improving competitiveness, reducing price volatility and to stabilize domestic supply throughout the whole sector chain. While the agreements often are not fully implemented, the goal is to establish a purchase price system to encourage milk producers to offer more stable milk quantities of high quality throughout the year. Manufacturers set a quota purchase level that is the daily average quantity for the volume sold during the previous

year. The over-quota milk production is purchased at a lower price than the quota price. There is a "Minimum Reference Quota Price" (MRQP) for buying milk within quota and a "Minimum Reference Surplus Price" (MRSP) for buying milk over the quota. For 2004, the MRQP is 561 pesos per liter (\$0.22) and the MRSP is 407 pesos per liter (\$0.16). In addition to these Minimum Prices, dairy farmers may obtain a premium price based on milk quality, which is negotiated between individual milk producers and manufacturers, and could increase the price up to \$0.25 per liter (15 percent over the MRQP price).

Approximately 43 percent of the Colombian cattle herd (beef and dairy) is concentrated in the Atlantic coast region. Most lactating cows in this area serve as dual-purpose (both milk and beef production) animals. An estimated 40 percent of Colombia's milk comes from this Atlantic coastal region. As much as 30 percent of Colombia's milk production is derived from non-dairy breeds. Other important dairy zones are located near large urban areas, such as Bogotá, Medellín, and Cali, where dairy breeds are used.

Consumption

There is lack of accurate information on milk consumption and no consensus between the Government, producers and industry. Per capita milk consumption (fluid and its products) is calculated at around 135 liters. Total powdered milk consumption is expected to rise 1.6 percent in 2004 to 62,000 tons, slightly above the population growth. Powdered milk consumption is projected to grow at a rate of three percent over the next two years.

Powdered milk is used mainly by processing facilities for reconstitution into fluid milk and other dairy products. About 5 percent of powdered milk supplies are consumed by households as a substitute for purchasing fluid milk. Demand for powdered milk usually increases markedly when the Government increases its regulatory checks on milk quality and finds more substandard fluid milk. During these times, consumers become suspicious of fluid milk quality and turn to powdered milk. Flavored powder milk and milk-flavored derivatives have been developed to expand the market, but are not widely consumed.

The Government of Colombia is sponsoring a new supplementary lunch program, including milk, for 500,000 low-income elementary students. As of today 230,000 students have been included. This program provides considerable support for milk producers. In part because of this program, during the December-January school vacation, per capita milk consumption decreases as consumers in resort areas drink less milk.

Most Colombian consumers do not view low-fat milk favorably, since there is a general perception that full-fat (3.2 percent fat) milk is more nutritious. In recent years, however, demand for low-fat milk has improved somewhat, as some consumers (mostly higher-income) have expressed greater concern about reducing fat intake. No more than 10 percent of all powdered milk output in Colombia is non-fat.

In 1994, Colombia initiated production of ultra-high temperature milk (UHT), and its use has increased from 0.7 percent of fluid milk consumption in 1996 to around 4 percent in 2003. Some dairy product companies are using UHT milk instead of pasteurized milk as an ingredient for manufacturing cheeses, yogurt and creams for external markets. They use UHT to comply with high sanitary standards set by developed countries. At present, UHT milk is sold as whole, skim, and delactosed milk.

Prices

The Colombian market price for powdered milk does not distinguish between whole and non-fat dry milk powder. The average retail price of powdered milk in September 2004 was

11,883 pesos per kilo (\$2.32/lb), three percent higher than a year ago. This price growth is three percent below the general annual rate of inflation.

Trade

Imports

In 2003, milk imports decreased to 50 tons from 1,128 tons in 2002 due to the import ban imposed in November 2003. Imports for year 2004 are expected to maintain that lower level due to the ongoing import ban and higher production. Most of the current imports reflect specialty products like baby formula that have been given special approval by the Ministry of Agriculture.

Exports

In 2003, Colombian exports totaled 25,424 two percent above a year before. Venezuela received 99 percent of the exports, despite currency restrictions put in place by Venezuela.

Colombia has a producer financed export subsidy program (Price Stabilization Fund) for beef and dairy products. Due to limited funds, however, most milk powder exports do not receive export subsidy payments.

Stocks

Lower imports have become the main factor for reducing stocks during 2003, despite the increased level of plant utilization. Stocks at the end of 2003 were 7,000 tons, down 46 percent from 2002. This stock level will remain during 2004 as the rise in exports and consumption will be offset by the increase in production and reduced imports.

Policy

Colombia continues to maintain the requirement for prior approval by the Ministry of Agriculture for all imports of milk powder (both whole and non-fat dry milk) that was implemented in November 2002. The Ministry has not approved any imports (with the exception of baby formula) since this requirement was put in place due to ongoing surplus domestic production.

In addition to the requirement for prior approval, imports of milk powder from third countries are also subject to the variable duty under the Andean Community Price Band System (ACPBS) (see import requirements below).

The livestock industry also operates a producer financed export subsidy program under the national Price Stabilization Fund. The Fund taxes domestic sales in order to finance exports of surplus production. Due to limited collections of payments, however, most milk powder exports do not receive export payments.

Colombia is currently in negotiations for a Free Trade Agreement with U.S. along with Ecuador and Peru.

Imports Requirements

Prior Approval: As noted above, all imports of milk powder must have the prior approval of the Ministry of Agriculture. The Ministry has given no approvals, except for specialty products like baby formula, since this requirement was put in place in November 2002. The requirement is scheduled to expire in December 2004, although we expect it to be extended by the Ministry of Agriculture.

Import Duties: Milk powder imports from countries outside of the Andean Community, the United States included, are subject to a 20 percent duty, plus an additional import tax under the Andean Community's price band and reference price system. Price bands exist for thirteen basic commodities, along with many related or substitute products. The "bands" are the parameters which determine whether additional import taxes are applied to imported products. The price band for powdered milk (whole or NFDM) consists of ceiling and floor prices, which are calculated on the basis of a five-year price average for New Zealand powdered whole milk without added sugar, adjusted to a CIF basis. Floor and ceiling prices are revised every April. The Andean Community also issues a reference price, which is adjusted every two weeks. If the reference price falls below the floor price band, an additional import surcharge is added to the 20 percent duty. If the reference price falls within the floor and ceiling bands, only the 20 percent duty is applied. If the reference price is above the ceiling band, the 20 percent duty is reduced. Since April 2003, the duty is applied to the invoice price instead the reference price as it was in the past. The change was necessary to bring Colombia into compliance with the WTO agreement on customs valuation.

For the second half of October 2004, the variable duty for powdered milk was 20 percent of the invoice price. The reference floor and ceiling prices for powdered milk were set at \$2,191 and \$1,951 per metric ton, respectively.

Product Registration: All retail food items, including products imported in bulk for repackaging for retail sale without further processing, must be registered and approved by the National Institute for the Surveillance of Food and Medicine (INVIMA) of the Ministry of Health. Imported powdered milk which is retailed in original containers or repackaged here in Colombia and resold to the public in local supermarkets must be registered. However, imported powdered milk which is used by processors for reconstitution into fluid milk or for the production of other products is not subject to this registration process. This registration, once obtained by the Colombian importer, is valid for all import shipments of the registered product during a ten-year period.

INVIMA registration requires a written document from the manufacturer stating that it is the manufacturer of the product. Also needed is a "certificate of free sale" stating that the product is approved for human consumption in the United States. This certificate needs to be issued by a government (state, local, or federal) health authority. A description of the manufacturing process and a list of ingredients specifying additives, preservatives, and coloring agents, is also required. In addition, the Colombian importer must register his company with MINCOMEX, the Ministry of Industry, Trade and Tourism. This grants Government of Colombia authorization for this company to import all food products.

Marketing

Every other July (odd years) the Colombian international livestock show "AGROEXPO" is held in Bogota. This is one of the most important shows of its kind in Latin America. Companies and associations interested in promoting American dairy genetics, machinery and other products should consider participating in AGROEXPO. The next event will be held in 2005.

Tables

Dairy, Dry Whole Milk Powder PSD, 2003-2005

Colombia							
Dairy, Dry Whole Milk Powder							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	11	13	10	7	8	7	(1000 MT)
Production	80	80	82	87	0	89	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	1	0	2	0	0	0	(1000 MT)
TOTAL Imports	1	0	2	0	0	0	(1000 MT)
TOTAL SUPPLY	92	93	94	94	8	96	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	21	25	24	25	0	27	(1000 MT)
TOTAL Exports	21	25	24	25	0	27	(1000 MT)
Human Dom. Consumption	61	61	62	62	0	63	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	61	61	62	62	0	63	(1000 MT)
TOTAL Use	82	86	86	87	0	90	(1000 MT)
Ending Stocks	10	7	8	7	0	6	(1000 MT)
TOTAL DISTRIBUTION	92	93	94	94	0	96	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Dairy, Milk, Nonfat Dry PSD, 2003-2005

Colombia							
Dairy, Milk, Nonfat Dry							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	1	1	0	0	0	0	(1000 MT)
Production	7	7	8	8	0	9	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	1	1	1	0	0	0	(1000 MT)
TOTAL Imports	1	1	1	0	0	0	(1000 MT)
TOTAL SUPPLY	9	9	9	8	0	9	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	9	9	9	8	0	9	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	9	9	9	8	0	9	(1000 MT)
TOTAL Use	9	9	9	8	0	9	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	9	9	9	8	0	9	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Powder Milk Exports 2003

Export Trade Matrix

Country

Colombia

Commodity

Dairy, Dry Whole

Milk Powder

Time Period

Jan-Dec

Units:

MT

Exports for:

2003

2004

U.S.

U.S.

Others

Others

Venezuela	25196		

Total for Others

25196

0

Others not Listed

1

Grand Total

25233

0

Powder Milk Imports 2003

Import Trade Matrix

Colombia

Dairy, Dry Whole Milk Powder

Time Period	Jan-Dec	Units:	Tons
Imports for:	2003		2004
U.S.		U.S.	
Others		Others	
Venezuela	100		
Total for Others	100		0
Others not Listed			
Grand Total	100		0

Powder Milk Retail Prices 2003-2004

Colombia

Dairy, Dry Whole Milk Powder

Prices in per uom

Year	2003	2004	% Change
Jan	11,374	11,804	4%
Feb	11,442	11,569	1%
Mar	11,427	11,444	0%
Apr	11,693	11,153	-5%
May	11,871	11,717	-1%
Jun	11,816	11,939	1%
Jul	11,849	11,887	0%
Aug	11,687	11,891	2%
Sep	11,548	11,883	3%
Oct	11,467		-100%
Nov	11,624		-100%
Dec	11,713		-100%

Exchange Rate Local
Currency/US \$
Date of Quote MM/DD/YYYY